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4 UNITED STATES DISTRICT COURT
5 EASTERN DISTRICT OF WASHINGTON
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7 STERLING INTERNATIONAL, INC., a
Washington corporation,

8 Plaintiff,

9 vs.

10 VIRTOOLS CANADA, INC., a Canadian
11 corporation, and VIRTOOLS, S.A., a
French corporation,

12 Defendants.
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CV-06-0059-AAM

ORDER DENYING
DEFENDANTS' MOTION TO
DISMISS

15 BEFORE THE COURT is the Defendants' Motion to Dismiss (Ct. Rec. 5)
16 pursuant to Fed. R. Civ. Proc. 12(b)(3). On July 11, 2006, the Court heard oral
17 argument. Jeff Supinger appeared on behalf of Plaintiff and John R. Nelson appeared
18 on behalf of the defendants. Upon due consideration of the written and oral arguments
19 of the parties, the court DENIES the motion as set forth below.

20 **I. Introduction**

21 This is a civil suit for money damages for breach of contract and for violation
22 of the Washington's Uniform Trade Secrets Act. Plaintiff specifically alleges
23 untimely performance and improper disclosure. Plaintiff is a Washington corporation.
24 Defendant Virtools, S.A. is a French corporation and is the parent company of
25 Defendant Virtools Canada, Inc., a Canadian corporation. The Court has jurisdiction
26 over Plaintiff's controversy pursuant to 28 U.S.C. § 1332(a)(2).

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1 II. Facts

2 The following fact are undisputed unless otherwise noted. Plaintiff Sterling
3 International Inc. ["Sterling"] is a corporation that produces and sells insect traps. In
4 early 2004, Sterling set out to create a fully interactive computer video game called
5 "POD" intended to teach children about insect behavior. Defendant Virtools Canada
6 ["Virtools"] sells a software development program which allows computer
7 programmers to develop the interactive and three-dimensional aspects of a computer
8 program. In addition, Virtools also licenses a game engine, the "Virtools Stand Alone
9 Player", which allows the computer program's user to utilize and display the
10 interactive 3-D functions of the program in real time.

11 In early 2004, Sterling contracted with software developer ARO Design for the
12 computer game's development. In order to provide ARO Design the necessary license
13 to use Virtools' software, in March 2004, Sterling entered into a written Licensing
14 Agreement ["the Licensing Agreement"] with Virtools for the use of the Virtools
15 Stand Alone Player and the Virtools' Software Development Kit.¹ The agreement
16 contains the following choice of law, forum selection, and good-faith negotiation
17 clause:

18 This Agreement shall be governed by Canadian law. *Any disputes arising from*
19 *this Agreement* shall be the exclusive jurisdiction of the Tribunal of Commerce
20 of Montreal. In the event a dispute arises between the parties concerning this
21 Agreement, a non-waivable pre-condition to submitting the dispute to the above
Tribunal, is that the parties have, for at least 30 days, engaged in substantive
good faith negotiation to resolve the dispute between
themselves.

22 Delporte Declaration, Exhibit 3 at 40 (emphasis added).

23 After work had commenced on the computer game, ARO Design informed
24 Sterling that it was unable to build a discrete portion of the game's computer code
25 called the character controller building block ["CCBB"], which is used to manipulate
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27 ¹ Also integrated into the Licensing Agreement as "Annex 2" is a Separate
28 Licensing Agreement between Virtools S.A. and the so called "end-user" of
Virtools products. This agreement also contains a forum selection clause and
choice of law clause providing for venue for "any dispute" in Montreal Canada
with French law governing. Delporte Declaration, Exhibit 3 at 46.

1 the insect characters within the game's virtual environment. Virtools then informed
2 Sterling it could create that portion of the game program in place of ARO Design and
3 submitted a written proposal to Sterling for the development of the CCBB at the cost
4 of \$32,000.00. On August 26, 2004, Sterling approved Virtools' "Sales Proposal for
5 Custom C++ Development: Insect Character Controller Building Block" ["CCBB
6 Sales Agreement"]. See Delporte Declaration, Exhibit 5. The CCBB Sales
7 Agreement does not contain a forum selection clause or any provision governing
8 disputes.

9 All of Sterling's claims in the present lawsuit concern Virtools' duties under the
10 CCBB Sales Agreement, not the Licensing Agreement. Sterling alleges the
11 defendants have breached their agreement by failing to timely deliver the CCBB code
12 and by disseminating the CCBB code on a web-site. Defendants filed a Motion to
13 Dismiss on May 18, 2006. Defendants argue the CCBB Sales Agreement arises from
14 the Licensing Agreement and that the venue provision of the Licensing Agreement
15 should govern this action. Plaintiff contends the CCBB Sales Agreement is a separate
16 contract which is not subject to the forum selection clause of the Licensing
17 Agreement.

18 **III. Motion to Dismiss Standard**

19 A motion to dismiss based on a forum selection clause is treated as a motion to
20 dismiss for improper venue and is brought under Rule 12(b)(3) of the Federal Rules
21 of Civil Procedure. *Argueta v. Banco Mexicano*, 87 F.3d 320, 324 (9th Cir. 1996).
22 Unlike the case in a motion to dismiss based on Rule 12(b)(6), in a Rule 12(b)(3)
23 motion a plaintiff's pleadings are not accepted as true and a court may consider facts
24 outside the pleadings. *Id.* (citing Supreme Court cases). "[I]n the context of a Rule
25 12(b)(3) motion based upon a forum selection clause, the trial court must draw all
26 reasonable inferences in favor of the non-moving party and resolve all factual
27 conflicts in favor of the non-moving party." *Murphy v. Schneider Nat'l, Inc.*, 362 F.3d
28 1133, 1138 (9th Cir. 2004) (finding rule for viewing facts under Rule 56 summary
judgment motion applies in Rule 12(b)(3) case).

IV. Analysis

The Court need not discuss at length the law of forum selection clauses as neither the existence nor validity of the clause is in controversy at this time. The parties acknowledge the Licensing Agreement in this case contains a forum selection clause and the CCBB Sales Agreement does not. The defendants also concede this case is based entirely upon the defendants' alleged failure to comply with the CCBB Sales Agreement. The sole question for the Court to resolve is whether the parties' forum selection clause in the Licensing Agreement applies to the Sterling's claims under the CCBB Sales Agreement.

Federal law applies in the analysis of the effect and scope of a forum selection clause. *Manetti-Farrow, Inc. v. Gucci America, Inc.*, 858 F.2d 509, 513 (9th Cir. 1988). "The scope of a forum selection clause is a contractual question that requires the courts to interpret the clause and, where ambiguous, to consider the intent of the parties." *New Moon Shipping Co., Ltd. v. MAN B & W Diesel AG*, 121 F.3d 24 (2nd Cir 1997). The court must examine the language of the contract to determine which causes of action are governed by the forum selection clause. *Marinechance Shipping, Ltd. v. Sebastian*, 143 F.3d 216, 220 (5th Cir. 1998), cert. denied, 525 U.S. 1055 (1998). Courts will not enforce a forum selection clause when the subject of the dispute does not arise from the contract containing the clause. *Cottman Transmission Systems, Inc. v. Martino*, 36 F.3d 291, 293 (3d Cir. 1994) (refusing to apply a forum selection clause from one contract between the parties to a dispute arising out of a second contract). If the substance of the plaintiff's claims does not fall within the scope of the forum selection clause, the clause cannot apply.

The Licensing Agreement limits the application of the forum selection clause to "[a]ny disputes arising from *this Agreement*." Delporte Declaration, Exhibit 3 (emphasis added). In order to apply the forum selection clause *as written* to this dispute, this Court would have to find that the terms of the Licensing Agreement and the CCBB Agreement are part of a single contract between the parties. Only then could the forum selection clause's self-limiting application to "this Agreement" refer

1 to both the Licensing Agreement and the CCBB Sales Agreement, and thus
2 encompass this dispute. However, The Licensing Agreement, by its terms, is a fully
3 integrated contract.² Thus, the scope of the forum selection clause includes only
4 disputes arising from the rights and obligations created by the License Agreement,
5 which this dispute is not.

6 Defendants urge the Court to consider extrinsic evidence arguing it
7 demonstrates the parties intended the forum selection clause to broadly apply to
8 disputes which “‘arise from’ *the relationship established* by the Licensing
9 Agreement.” Defendants’ Reply at 9 (emphasis added). While extrinsic evidence of
10 intent may be considered by the Court, extrinsic evidence may be used only to clarify
11 the meaning of the words; it may not be considered for the purpose of varying the
12 terms of the contract. *Berg v. Hudesman*, 115 Wash.2d 657, 801 P.2d 222 (1990).
13 Here, defendants are not attempting to elucidate the meaning of the words actually
14 employed in the agreement, but rather attempt to import into the writing an intention
15 not expressed therein. Such use of extrinsic evidence is expressly prohibited by *Berg*.
16 *Berg*, 115 Wash.2d at 669, 801 P.2d 222.

17 Defendants make the similar argument that because Virtools and Sterling’s
18 relationship exists only because of its connection through the licensing agreement, this
19 dispute therefore “arises from” the Licensing Agreement. This argument has no merit.
20 In a case involving two separate, but related contracts, the “arising from” language in
21 one contract does not necessarily apply to claims arising out of the second contract.
22 This is a form of “but-for” analysis which courts have rejected as an interpretation of
23 the “arising from” or “arising out of” language in forum selection clauses. *Omron*
24 *Healthcare v. Maclaren Exports*, 28 F.3d 600, 602 (7th Cir. 1994) (citing *Merrell*
25 *Dow Pharm., Inc. v. Thompson*, 478 U.S. 804 (1986); *Spearman v. Exxon Coal USA*,

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28 ² The Licensing Agreement provides an integration clause: “Together with
its annexes, the present Agreement constitutes the entirety of the agreement
between the parties...This Agreement may be amended only by a written
instrument signed by the parties hereto...” Delporte Declaration, Exhibit 3.

1 *Inc.*, 16 F.3d 722 (7th Cir.1994)). These “are familiar phrases, and courts have
2 resisted the siren call of collapsing them to but-for causation.” *Omron*, 28 F.3d at 602.

3 Finally, defendants argue the extrinsic evidence offered proves Sterling’s
4 “unequivocal understanding that the claims in this action were subject to the...forum
5 selection clause.” Otherwise stated, defendants’ argument is that the parties intended
6 to incorporate the terms (or at least the forum selection clause) of the Licensing
7 Agreement into the CCBB Sales Agreement. Parties are not allowed to smuggle in
8 parol evidence to add a term to an integrated contract, in defeat of the parol evidence
9 rule. If the writing is a complete integration – the complete and final statement of the
10 parties agreement on the subject – any terms and agreements that are not contained in
11 it are disregarded. *Morgan v. Stokely-Van Camp, Inc.*, 34 Wash.App. 801, 807, 663
12 P.2d 1384 (1983) (quoting 5 R. Meisenholder, Washington Practice § 121, at 125
13 (1965)). If it is not intended to be the complete expression of the parties' intent-in
14 other words, if it is only partially integrated-the writing may be supplemented or
15 replaced by consistent terms or agreements shown by a preponderance of the
16 evidence. *Id.*

17 To determine whether a writing is a complete or partial integration, a court must
18 engage in a fact-specific analysis. Because a writing can not prove its own
19 completeness, wide latitude is accorded to the Court to consider the circumstances
20 surrounding its execution bearing on the intention of the parties. *See M.A. Mortenson*
21 *Co. v. Timberline Software Corp.*, 140 Wn.2d 568, 579, 998 P.2d 305 (2000). In
22 determining whether an agreement is completely or partially integrated “the court may
23 consider evidence of negotiations and circumstances surrounding the formation of the
24 contract.” *Denny's Restaurants, Inc. v. Security Union Title Ins. Co.*, 71 Wash.App.
25 194, 202, 859 P.2d 619 (1993)(citing Restatement (Second) of Contracts § 214).

26 The Court’s review of the record reveals no substantial evidence that the parties
27 did not intend the CCBB Sales contract to be the embodiment of their complete and
28 final expression on the subject of the development of the CCBB code. In fact, in the
days just prior to formation of the agreement, Sterlings’ representative Bob Loomis

1 evidenced his desire to form a separate contract when he wrote he was "of the view
2 that rather than amend the license of March 2004, it would be preferable to sign a
3 separate Development and License Agreement." Delporte Declaration, Ex. 4 (Loomis
4 Email Aug. 10, 2004). While the Court acknowledges the CCBB Sales Agreement
5 is different in form than previously negotiated agreements, it relates to software
6 development rather than licensing.

7 Even assuming the agreement was only partially integrated and the Court were
8 to consider the extrinsic evidence offered, the Court must resolve all factual conflicts
9 in favor of the non-moving party. *Murphy*, 362 F.3d at 1138. Construing the facts in
10 the light most favorable to Sterling, the record does not support the unequivocal
11 conclusion that the parties intended the sales agreement to be subject to the licensing
12 agreement's forum selection clause. In fact, the evidence which does appear on the
13 record strongly intimates that Sterling desired and received a separate agreement.
14 While defendant proffers evidence suggesting Loomis may have at one time *thought*
15 the Licensing Agreement's terms applied to this dispute, such evidence is irrelevant
16 to the question of what the parties agreement actually was. Notably, there is no
17 evidence suggesting the parties agreed the terms of the Licensing Agreement would
18 apply to the CCBB Sales Agreement.

19 **V. Conclusion**

20 All of Sterling's claims in the present lawsuit concern Virtools' duties under the
21 CCBB Sales Agreement, not the Licensing Agreement. There has been no suggestion
22 that plaintiff's causes of action in this case depend upon the enforcement or
23 interpretation of the Licensing Agreement. The language of the Licensing
24 Agreement's forum selection clause is unambiguous and does not lend itself to more
25 than one reasonable interpretation. Finally, the extrinsic evidence offered by the
26 defendants does not provide a justification for this Court to import the forum selection
27 clause into the CCBB Sales Agreement. Notwithstanding the possibility that the
28 defendants may be forced to defend related lawsuits in a different forum, venue

1 properly resides in Eastern Washington as this case presently stands. Accordingly,
2 defendants' motion to dismiss (Ct. Rec. 5) is **DENIED**.

3 **IT IS SO ORDERED.** The District Executive is directed to enter this order
4 and furnish copies to counsel.

5 **DATED** this 17th day of July, 2006.

6
7 s/ Alan A. McDonald
8 ALAN A. McDONALD

9 SENIOR UNITED STATES DISTRICT JUDGE
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